

**WORKSHOP ON THE MID-TERM REVISION OF THE FINANCIAL REGULATION:
IMPROVEMENT OF DIRECT MANAGEMENT AND
OUTLOOK ON THE COMMISSION PROPOSAL**

Monday 11 July 2016, 16:00-18:30

European Parliament, BUDG and CONT committees

József Antall Building (JAN), Room 4Q2, Brussels

**THE EUROPEAN COURT OF AUDITORS' VIEW FOR THE REVISION OF THE FINANCIAL
REGULATION**

Introduction

Mme Gräßle and Mr Arthuis, Chairs of the CONT and BUDG committees, Honourable Members of the European Parliament, esteemed speakers, ladies and gentlemen,

The financial regulation sets the scene for good financial management of EU funds. Spending EU money in the best possible way and accounting for it in a transparent and timely manner are main elements that form a basis for such a management.

My presentation includes personal reflections. The previous speaker has provided us with an outlook on the Commission proposal. In accordance with the Treaty we will provide our opinion on it once it is available.

Today we can reflect and discuss what the financial regulation could look like and where the financial regulation can be improved, addressing some practical matters from our day-to-day experience.

I start my presentation with some general remarks on the elements of principle that form the financial regulation. I will then address some points that may need attention.

In principle

One could argue that good practice does not necessarily need strict regulation.

The Commission and other Institutions should effectively manage EU spending so that it is legal and regular. Actions of management are the key for improvement, a regulatory framework is there to support this.

This spending should not be subject to misuse, and should provide the best results at the lowest costs. This should be done in the simplest way possible.

And it should be accounted for in a transparent and timely manner. The financial regulation sets the scene for good management:

- who does what, when; and how; and
- how the actions taken (and not taken) are accounted for.

This last element is of particular interest to the European Court of Auditors. The financial regulation should describe what the expected outcome and results should be, and only if necessary describe in detail how this is done.

Governance at the Commission

We are currently at the final stage of assessing governance at the Commission. We focus on financial management, audit and control. I am the reporting Member for this task which is expected to be published in the autumn as a special report.

This work, with management and accountability as main elements, will provide further input for the update of the financial regulation.

As Mr Arthuis indicated in April 2016 at the Commission's awareness raising event on the financial regulation, common sense needs to play an important role.

I take the liberty to translate this into adhering to best practice or explaining when this would not be best for the Commission, in other words: 'comply or explain'.

Best practice would include requirements set out by the EU for public interest bodies, the Commission's public internal control network and other respected bodies.

What may need attention

There are some points that we addressed in the past which could still be taken up.

Outstanding commitments are expected to be once again very high during the current multi-annual period.

Do the commitments still serve the purpose of good planning of payments? Do they prevent overspending?

The financial regulation should reflect the long term aspects of budget planning, in line with our 2014 annual report recommendation for a long-term cash-flow forecast.

Are financial instruments adequately monitored by the Commission? Is information available in a timely manner and can the Commission assess whether financial instruments deliver the expected results?

On revenue, an unnecessary high amount of possible internal assigned revenue exists. The update of the financial regulation should address this.

For example, in agriculture the budget for direct aid to farmers is reduced by several hundred million euro.

This planning is so, because it anticipates assigned revenue from conformity decisions of the same amount. Let the financial corrections be part of the general budget revenue.

Plan the gross expenditure from the start as intended. But, there are other issues that need to be taken up.

The EU budget is there to get EU policy implemented with the aim to achieve the best results possible.

The financial regulation could provide for some steps in the implementation of a budget focussed on results. How will the update of the financial regulation further assist the Commission and the budgetary and discharge authority in assessing performance?

How will it ensure that reporting on performance is consistent and reliable? The financial regulation should address the budget planning for performance, its implementation and accountability.

Improving the quality of EU spending requires simplification. Complex legislation is unlikely to produce the improved performance sought by all EU stakeholders.

This should be done in such a way that the particular College of Commissioners that spends the budget is also accountable for its results both in terms of performance and regularity. This implies that the budget should be more flexible and able to address unforeseen issues and shorter term priorities.

Deadlines

Deadlines are a necessary component of the financial regulation. Timely reporting is essential and adds value. Providing reports earlier is demanding on all parties in the process; to us in choosing the right topics and scope, to the auditee in replying and providing the answers.

Not all stages in this process have deadlines. Nevertheless, a deadline should not be the date on which by definition work is presented.

A good example is the earlier adoption of the 2015 EU consolidated accounts. This will assist us to adopt and publish our annual report on 13 October, about one month earlier than in previous years. Bringing forward the effective dates could expedite the discharge procedure.

It should however include all relevant documents for the discharge, allowing us to continue to audit the accounts and check consistency with the other documents of the discharge package or discharge report.

It is unfortunate that the practice on other deadlines goes in the opposite direction. In particular on activities that involve receipt of data from authorities in Member States. Currently deadlines are spread around in sectorial regulations.

The financial regulation should include harmonised deadlines for all funds.

Closing remarks

A last thought: not all what is in the current financial regulation needs revision, but rather implementation. An example of this is our observation that activities with persistently high levels of error need to be assessed. Article 32(5) of the financial regulation provides for this and the Commission needs to take action.

Concluding, in my view the financial regulation update needs to:

- Be principle based and only detailed where this is needed;
- Address the long term budget needs and rethink the role of commitments;
- Prepare for a budget focussed on results;
- Facilitate a smooth, modern auditor/auditee relationship allowing for timely reporting;
- Keep what is already good and have it applied; and
- Do without unnecessary features, such as internal assigned revenue.

Thanking you for the opportunity to present our views, we now look forward to the Commission's proposal.

Lazaros S. Lazarou
ECA Member for the Annual Report
Dean of Chamber V
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